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SUBJECT: CROATIA'S ELECTIONS: ANOTHER IMPORTANT STEP

Classified By: Ambassador Ralph Frank, for reasons 1.5 (b) and (d)

Summary

1. (C) Voters head to the polls this Sunday, November 23, in what will probably be the closest general election in Croatia's short history. The only result we're ready to predict is that the overwhelming majority of voters will cast ballots for candidates who back integration into Euro-Atlantic institutions and favor continued economic reform. But regardless of whether the right or left wins, the next government will be a coalition which will include parties which do not fully share that consensus. That means that Croatia's next government -- no matter how positive its intentions -- could have many of the characteristics we found most exasperating in its predecessor. All expectations are that the poll will be carried out properly and that preliminary, unofficial results should be available by the end of election day. End summary.

2. (C) In Croatia's last general election nearly four years ago, voters were faced with clear choices: isolation or Europe, stagnation or reform. When they return to the polls this Sunday, their options -- as they have been presented -- are far less distinct. Both PM Racan's SDP and Ivo Sanader's HDZ have pledged to continue to lead Croatia toward integration in the EU and NATO, even if it means making unpopular choices, like cooperation with ICTY and accommodating the return of Serb refugees. Both claim that they will continue to move forward with economic reforms, although both will probably have to step back from a few populist campaign promises.

3. (C) Perhaps the most important achievement of the past three years is the emergence of this solid consensus among the majority of voters as to where Croatia should be going. No matter what the outcome, our initial post-election response should be to welcome voters' affirmation of Croatia's European vocation -- and all the reforms that entails -- and to encourage the next government to make faster progress toward this goal.

4. (C) Observers here continue to predict that this election will be the closest in Croatia's short history. But it is clear that neither the HDZ nor the SDP will win enough seats to form a government on its own. That means they will have to reach out to parties which do not fully share this mainstream, pro-Europe, pro-reform consensus. There are also serious questions about whether the HDZ's commitment to this consensus is anything more than a respectable facade concealing the nationalist, corrupt elements still strong in Sanader's HDZ. Certainly, the HDZ leadership has significant reservations about full cooperation with the ICTY.

5. (C) All polls indicate that the HDZ will be the single largest party in the next parliament. To assemble the additional votes needed for a center-right government to come to power, Sanader will look first to the HSLS/DC as a coalition partner. While the leaders of this coalition have made pro-Europe noises, HSLS leaders have made it clear that unconditional cooperation with The Hague War Crimes Tribunal is a price they are not willing to pay to get to Europe. If Sanader needs to reach beyond the HSLS/DC, he will have to engage with the Croatian Party of Rights (HSP), an extreme right-wing party which still carries historical baggage from Croatia's WWII-era fascist state.

6. (C) For a center-left government to return to power, Racan's SDP can rely on the progressive Croatian People's Party (HNS) as a solid partner which shares the mainstream consensus. They should also be able to count on the support of most of the eight parliamentary seats which by law are allotted to Croatia's many ethnic minorities. But even in their most optimistic election scenarios, this grouping will need help from the Croatian Peasants' Party (HSS). While the HSS shares the goal of membership in the EU, its leadership claims it will oppose some economic reforms (like privatization) and are arguing for a stronger state role in directing the economy.

7. (C) In January of 2000, the coalition led by Racan's SDP came to power with only a single shared goal: get rid of Tudjman's HDZ. Lack of consensus within that coalition often meant the Government was paralyzed and conflicted every time

it faced a tough decision. Unfortunately, the likely lack of consensus within either of the lineups expected to succeed after Sunday's poll will produce either an unstable government or -- more likely -- one that, like its predecessor, seems indecisive and misses key opportunities. The only formula that seemed to work for the previous Government was to move slowly, blame tough choices on external factors and logroll coalition partners which would otherwise block progress. We should expect to see some of this behavior in the next government as well. In practical

terms, that means major policy changes will be difficult to achieve. Issues that would require a two-thirds majority -- like deploying troops to Iraq -- will be a tough sell for any government.

18. (C) We expect at least preliminary results to be available late on election day, November 23. Final results may not be published for a few days, but because the process of tabulating results in Croatia has in the past been so transparent, reliable results of parallel vote counts conducted by NGO's and party observers will likely be available by November 25.

19. (C) The next step after elections is up to President Mesic. The leader of the party which gets the most votes is not automatically given first chance to form a coalition government. Croatia's constitution grants the president a high degree of flexibility in identifying who should make the first attempt at forming a government. Mesic will grant this mandate to the leader of whichever grouping convinces him that they have the votes in the new parliament to form a government. That individual will then have thirty days to form a government and receive a vote of confidence in the new Sabor.

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